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1 October 1963

PROBLEM: To ascertain how Agency budget levels may be cut so as to adhere more closely to the target levels established by the Bureau of the Budget for CIA.

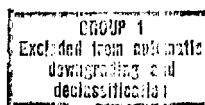
FACTS BEARING ON THE PROBLEM:

1. The Agency budget as presently prepared on authority of the Director for submission to the Bureau of the Budget calls for [] to support five major activities and [] permanent positions (Tab A). This budget level represents a net cut-back of [] from the Agency preliminary estimate as submitted on 27 May 1963 to the Bureau of the Budget. Detail of these reductions are provided at Tab B (columns 5 and 6) and reflect cut-backs in consideration of recommendations made by the Bureau of the Budget on 9 July 1963 to the Director in a discussion held at the Bureau.

2. On 19 August 1963 the DCI was advised by the Bureau of the Budget of a planning level of [] which was provided as a guide line for the preparation of the Agency's Fiscal Year 1965 budget (see Tab C). No figure was contained in this letter with respect to positions. The Bureau's planning totals for the Agency were carefully explained as not constituting a ceiling. However, the DCI was called upon, in the event that the Fiscal Year 1965 Agency budget submission exceeded the Bureau's proposed planning levels, to indicate how he would hold the budget within the planning totals if required to do so, i.e. program identifications of curtailments necessary to come from []

3. During this same period (May through September) a gold flow "budget" was also submitted. This report along with a battery of selected data requested by the Bureau formed the basis for a further review by the Bureau of the Budget of Agency overseas activities. In a letter of 3 August 1963 to the DDCI the Bureau of the Budget concluded that "further dollar outflow savings by CIA are possible without significant impairment of the contribution which the Agency's overseas program makes to U.S. national objectives and interests." This letter attached a list of suggested actions to this end and proposed that equivalent adjustments be made in the apportionment of the Agency's Fiscal Year 1964 funds in order to effect the recommended curtailments. (Tab D). Response to the Bureau's 3 August 1963 letter was made by the DDCI with the submission of the September gold flow report (Tab E). The Bureau was advised of certain areas where the Agency would take action on their suggested list. However, the DDCI response necessarily left unresolved for further study those questions raised in the Bureau's list where curtailment involved more than a unilateral action on the part of the Agency. It is to this point that we understand the Director of the Bureau addressed himself to the DCI in the 30 September 1963 meeting.

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4. Likewise, in this period the Agency has submitted a manpower "budget" in the form of a report on the manpower control program of the Agency. On this front and in the context of Fiscal Year 1964 budget levels the Bureau of the Budget authorized the Agency to go forward to the Congress in Fiscal Year 1964 citing a year-end on-duty level of [] (Tab F). Recruitment in the Agency has permitted a more rapid entrance-on-duty than the year-end figures of the Bureau would permit. Accordingly on 26 July 1963 a temporary slow down was placed on recruitment with an interim ceiling. The situation was placed under intensive study by all Deputy Directors and the Comptroller in the context of the Fiscal Year 1965 budget - then in preparation. 25X1

5. Resulting from this study the Director, in a meeting on 12 September, reviewed the proposed Fiscal Year 1965 personnel levels and authorized a personnel strength of [] for submission in the Fiscal Year 1965 budget. During this same meeting and in response to a request for guidance by the DDCI to meet requirements of the 19 August 1963 letter from the Bureau of the Budget (Tab C), the Director also identified those areas of Agency programs that he felt were candidates for review and possible cut-back if the Agency was held to the planning figure of [] (Tab G). 25X1

6. As a result of this meeting the Agency's Fiscal Year 1965 budget as presently prepared supports the [] figure and letters are in preparation explaining the areas of cut-back we would undertake if held to the [] level. 25X1

7. Given the current pressures to reduce the over-all levels of the government budget in order to accommodate the President's tax program, and to minimize the predicted deficit resulting therefrom, the Bureau of the Budget has been exercising an extremely firm hand in the budget review process over the Fiscal Year 1965 budgets of all agencies. At CIA over the past months Bureau examiners have employed the Presidential directive for manpower control programs, for gold flow reporting and for reduction of overseas projects alongside their normal program review mission in both the budget formulation and execution stages. In so doing, as indicated in the tabs to this paper, the Bureau has repeatedly cited specific aspects of the Agency's programs which they feel should be curtailed on the tri-front of manpower, gold flow and program levels. They have both formally and informally cited the high cost of maintaining personnel overseas. 25X1

[]
peripheral value to the U.S. Government or to the Agency's programs. With the reluctance of the Agency to totally condescend to their views, they have generated an arrangement to have the Special Group review the covert action activities "base" at least once each year while at the same time not abdicating their own responsibility for a more concentrated and thorough review in the context of the budget.

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8. Likewise, the Bureau has not accepted the programs of the Orrick Committee as a carte blanche for expansion of the Agency's communication services. Nor are they ready to accept estimates developed in the over-head reconnaissance fields as being sacrosanct. The Bureau examiners have also raised doubts as to the validity of the size of our administrative forces both overseas and at Headquarters. The records of their positions have been regularly reported by the Comptroller to the Financial Policy and Budget Committee, and to the Deputy Directors and need not be elaborated upon further.

9. Meanwhile the Agency tactic in these negotiations has been to take a more studied approach to reductions and to allow for increases, albeit gingerly, in some of the higher priority program areas. Attached at Tab H is an outline by organizational components of the CIA budget submission as presently prepared for transmittal to the Bureau of the Budget. The Bureau's planning totals as derived from their 19 August 1963 letter and subsequent discussions with the Bureau representatives are also set forth. The column of differences indicates amounts and locations which in themselves can be identified to program areas of the respective divisions. Tab B sets forth these data in more historical perspective and proposes alternatives for adjustment downward of our present proposals.

DISCUSSION

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EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON 25, D.C.

AUG 19 1963

Honorable John A. McCone
Director of Central Intelligence
Washington, D. C. 20505

Dear Mr. McCone:

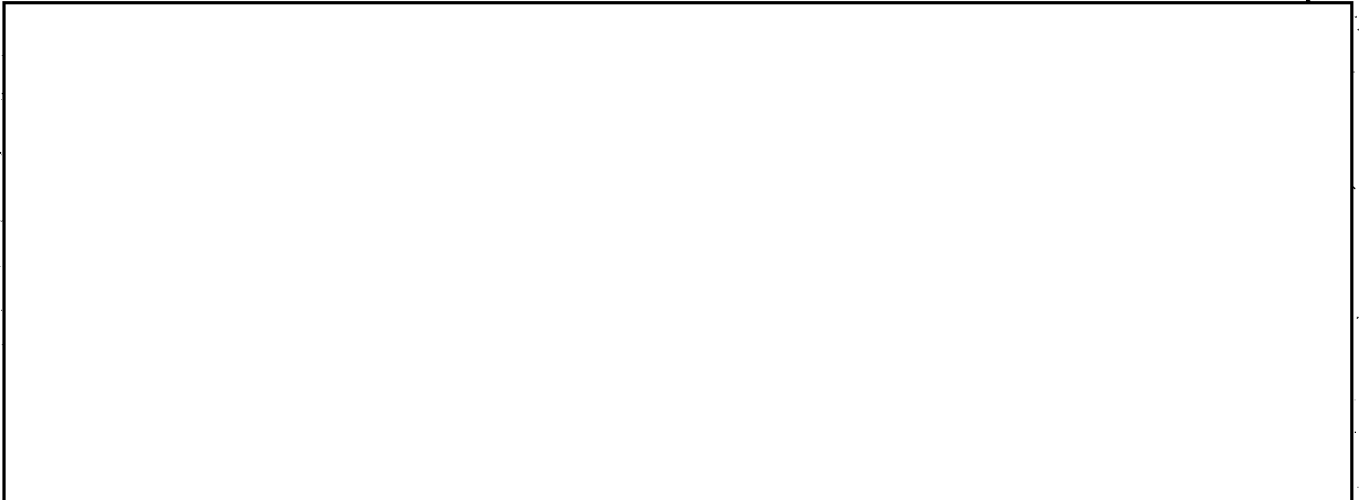
In our meeting of July 9, 1963, to discuss the 1965 budget issues, we gave you some tentative figures which were still subject to further review. Since that time the Director has gone over the budget outlook with the President and discussed with him some of the major program issues. As a result of the review which has taken place since our meeting, the earlier figures have been revised. The attachment sets forth the approved planning totals of new obligational authority to guide you in preparing the detailed 1965 budget request for your agency.

It should be understood that the amounts shown for 1965 are not intended to establish the final figures to go in the budget. Detailed budget submissions will be subjected to a critical review this fall before final decisions on the 1965 budget are reached. These planning figures are not intended to establish the amounts of your budget submission, nor is the program detail shown on the attachment meant to limit your flexibility of judgment within the totals. The President would be pleased if you find it possible to submit budget estimates coming to lower amounts. If, however, you should find it necessary to submit proposals which exceed the planning totals, you are also requested to indicate how you would hold your budget within the planning totals.

The amounts shown on the attachment for the years beyond 1965 have also been arrived at in keeping with the President's overall budget objectives. They are furnished to serve as general guides for your longer-range program planning and for considering the effect of 1965 budget proposals on the years beyond.

We recognize that the delays in the enactment of appropriation bills during this session of Congress may cause problems in the preparation of your 1965 budget proposals on a timely basis. Nevertheless, the President is faced with a statutory deadline for transmitting the Budget to the Congress. Your cooperation is therefore urgently requested in the submission of your budget proposals on schedule by September 30, 1963, regardless of the status of congressional action for the current year. If necessary, the 1964 column of the budget schedules can be adjusted later to reflect final congressional action.

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Bureau of the Budget staff will be available to discuss the basis for the attached figures, and to give you any other assistance which would help in making an effective and timely budget submission.

Sincerely,

ELMER B. STAATS
Acting Director

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EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON 25, D.C.

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AUG 3 1963

Lt. Gen. Marshall S. Carter
Deputy Director of Central Intelligence
Central Intelligence Agency
Washington 25, D. C.

Dear General Carter:

As evidenced by his special message of July 18 on Balance of Payments, the President continues to attach the highest significance to actions taken by each department and agency to reduce dollar expenditures abroad. I note from the CIA's June 15 report on international transactions and your letter forwarding this report, that the Agency has made some progress in reducing its foreign dollar expenditures, as well as in improving the accuracy of the data submitted to the Bureau.

We have recently completed reviews of the Agency report and of the data submitted on overseas offices and personnel under Bulletin 63-13. We conclude that, while recognizing the progress made by the Agency during the past year, further dollar outflow savings by CIA are possible without significant impairment of the contribution which the Agency's overseas program makes to U.S. national objectives and interests.

Attached to this letter is a list of suggested actions prepared by my staff which cover both reductions affecting overseas offices and personnel and program activities. Some of these actions were discussed in our session on the 1965 Budget Preview and normally would come up again during the fall review of the FY 1965 estimates. However, given the President's policies on this matter, I feel it imperative to move ahead with decisions on these and other items which would achieve savings in dollar outflow. I am, therefore, submitting this list for your consideration and propose that equivalent dollar adjustments be made in the apportionment of the Agency's FY 1964 funds.

In addition, it is the Bureau's view that many of your overseas stations are manned at a level which can no longer be justified in the light of the urgent national requirement to minimize dollar expenditures abroad. During the 1965 Budget review my staff will examine carefully all overseas positions. Meanwhile it is hoped you will take action to reduce these establishments at the earliest opportunity.

Sincerely,
(Signed) Kermit Gordon
KERMIT GORDON
Director

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Executive Registry

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SEP 10 1963

Mr. Kermit Gordon
Director, Bureau of the Budget
Washington 25, D. C. 20503

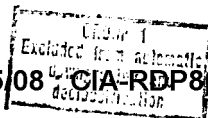
Dear Mr. Gordon:

This letter is in reply to your letter of August 3, 1963 concerning the Balance of Payments. In your letter you noted the progress the Agency has made thus far, both in reducing foreign dollar expenditures and in improving the accuracy of our data, and at the same time you expressed the belief that even further dollar outflow savings could be realized and suggested several specific actions to this end.

I have delayed responding to your letter pending preparation and study of the Agency's regular quarterly submission on international transactions required by your Circular No. A-58. This quarterly report has just been completed and is attached as Tab A. It was my feeling that the experience gained in going through this complex exercise one more time would contribute further to our understanding of this difficult problem, and that the resulting data would insure that our reply to your letter was based on the most current information available.

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In conclusion, the Director and I fully support the President's policies on the balance of payments problem and recognize the importance of reducing the dollar outflow. This subject is repeatedly brought to the attention of all my senior officials.

Faithfully yours,

Marshall S. Carter
Lieutenant General, USA
Deputy Director

BD/COMP/[]/mcf/9 Sept 63

Distribution:

- Original and 1 - Addressee
1 - Executive Registry
1 - Comptroller
2 - Budget Division (*subject*) ✓

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EXCERPT from letter to DCI from Director, Bureau of the Budget, dated 20 December 1962.

"The President has also approved the following estimate of total employment for your Agency:

June 30, 1963 -

June 30, 1964 -



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These employment estimates are the maximums on which your budget justifications should be based. Initial apportionment plans for fiscal year 1964 should be accompanied by an employment plan indicating any modifications in the employment estimate needed to reflect congressional action on appropriations and changes in inter-agency financial arrangements, if any, which have developed. Any changes in Agency plans during the remainder of this fiscal year and during the fiscal year 1964 should be brought to the attention of the Bureau of the Budget if they indicate that end-of-year employment will differ significantly from the figure listed above for 1963 or from the modified figure arrived at in connection with the apportionments for 1964. This procedure should be kept in mind as you proceed with steps to assure an adequate manpower control system for your Agency in accordance with the recent revision of Bureau of the Budget Circular No. A-44."

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